reorganization value does not include Cash remaining, if any, in STFI after the projected Cash distributions to be made under the Plan The Debtors are of the view that such Cash is necessary to run the business and, therefore, should not be included for valuation purposes

Accordingly, based on the reorganization value set forth above, the Debtors have estimated the reorganization equity value which is set forth in Exhibit J hereto The valuation is based on a number of assumptions, including a successful reorganization of Debtors' businesses in a timely manner, the achievement of the forecasts reflected in the Projections, the continuation of current market conditions through and after the Initial Effective Date, the Plan becoming effective in accordance with its terms, and STFI's ability to attract and retain qualified employees, borrow under credit facilities, purchase equipment at reasonable prices, maintain good relations with its vendors, customers and employees and successfully market its services to its existing and new customers

The estimated reorganization value does not purport to be an appraisal or necessarily reflect the value which may be realized if assets are sold The estimated value represents a hypothetical reorganization value for Reorganized STFI Such estimate reflects the application of various valuation techniques and does not purport to reflect or constitute an appraisal, a liquidation value or an estimate of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly different from the amounts set forth herein The value of an operating business such as the Debtors' business is subject to uncertainties and contingencies that are difficult to predict and will fluctuate with changes in factors affecting the financial conditions and prospects of such a business AS A RESULT, THE ESTIMATE OF REORGANIZATION VALUE SET FORTH HEREIN IS NOT NECESSARILY INDICATIVE OF ANY ACTUAL VALUE, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN THAT SET FORTH HEREIN BECAUSE SUCH ESTIMATE IS INHERENTLY SUBJECT TO UNCERTAINTIES, NONE OF THE DEBTORS, ATLT OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, ATTORNEYS OR ADVISORS, OR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR ITS ACCURACY IN ADDITION, THE VALUATION OF NEWLY-ISSUED SECURITIES SUCH AS THE NEW STFI COMMON STOCK IS SUBJECT TO ADDITIONAL UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT Actual market prices of such securities at issuance will depend upon, among other things, prevailing interest rates, conditions in the financial markets, the anticipated initial securities holdings of Debtors' creditors, some of which may prefer to liquidate their investment rather than hold it on a long-term basis, and other factors that generally influence the prices of securities

THE VALUATION REPRESENTS THE ESTIMATED REORGANIZATION VALUE OF STFI AND DOES NOT NECESSARILY REFLECT THE VALUE THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS THESE SECURITIES WILL NOT BE PUBLICLY TRADED THERE MAY BE NOT MARKET FOR THESE SECURITIES THE EQUITY VALUE ASCRIBED IN THE ANALYSIS DOES NOT PURPORT TO BE AN ESTIMATE OF THE POST-REORGANIZATION MARKET TRADING VALUE SUCH TRADING VALUE, IF ANY, MAY BE MATERIALLY DIFFERENT FROM THE EQUITY VALUE SET FORTH IN THIS VALUATION ANALYSIS

IX. CERTAIN RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST THE DEBTORS ENTITLED TO VOTE ON THE PLAN SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

A. CERTAIN BANKRUPTCY LAW CONSIDERATIONS

1. Risk of Non-Confirmation of the Plan Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy

Court will reach the same conclusion Moreover, there can be no assurance that modifications to the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes

2. ***Non-Consensual Confirmation*** In the event any Impaired Class of Claims does not accept the Plan, the Bankruptcy Court may nevertheless confirm the Plan at the Debtors' request if at least one Impaired Class has accepted the Plan (such acceptance being determined without including the vote of any "insider" in such Class), and as to each Impaired Class that has not accepted the Plan, if the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting Impaired classes The Debtors believe that the Plan satisfies these requirements, but there can be no assurance that the Bankruptcy Court will reach the same conclusion

3. **Cures** There can be no assurance that the Bankruptcy Court will concur with the Debtors' view that the Utility Services and the Tariffed Services shall be treated in the manner provided in the Plan If the treatment of these issues is different, the distributions under the Plan may be different

B. CLOSING CONDITIONS TO THE SALE OF THE ASSETS The Closing Conditions set forth in Section 7 1, 7 2, 7 3 and 7 4 of the Purchase Agreement must be satisfied or waived in accordance with the Purchase Agreement Since many of these conditions have not yet been achieved, there can be no assurance when the conditions will be met and that there will be not reduction in the distributions under the Plan

C. *RISKS TO RECOVERY BY HOLDERS OF CLAIMS WITH RESPECT TO REORGANIZED STFI*

1. **Technological changes and new product offerings may adversely affect Reorganized STFI sales.** The market for communications products and services are characterized by technological change and frequent new product introductions Accordingly, Reorganized STFI believes that its future success will depend on its ability to identify and incorporate in a timely manner new products and enhancements to existing products and services that gain market acceptance There can be no assurance that the products and services that it offers will not become technologically obsolete, or that it will be able to identify, market or support new products successfully, that such new products will gain market acceptance or that it will be able to respond effectively to technological change Reorganized STFI's ability to keep pace with technological changes or offer products with market acceptance may adversely affect it's sales revenues, profitability and stock price

2. **The success of Reorganized STFI depends on key personnel and it may not be able to retain *and/or replace key employees.*** Reorganized STFI's success depends in large part on its ability to attract, develop, motivate and retain highly skilled and educated professionals possessing technical expertise and business generation skills Qualified consultants, telecommunications systems installers and other technical resources are in great demand and are likely to remain a limited resource for the foreseeable future There can be no assurance that Reorganized STFI will be able to attract and retain sufficient numbers of qualified personnel in the future The loss of services of one or more of key individuals could materially and adversely affect its business and prospects Most of Reorganized STFI's key employees do not have employment agreements The loss of a significant number of consultants, selling professionals and systems installers could have a material adverse effect on Reorganized STFI's business

3. **The success of Reorganized STFI depends on retaining good relations with the employees** STFI has collective bargaining agreements with certain of its employees Although the Debtors' management believes that the Debtors relationships with these employees are good, a disruption in these collective bargaining agreements may have an adverse effect on the Reorganized STFI

4. **Reorganized STFI is dependent on effective billing, customer service and information systems and it may have difficulties in developing, maintaining and enhancing these systems.** Sophisticated back office information and processing systems are vital to Reorganized STFI's growth and its ability to control and monitor costs, bill and service customers, initiate, implement and track customer orders and achieve operating efficiencies Over the next year, Reorganized STFI will need to upgrade and integrate its billing and information systems Reorganized STFI believes that a new billing system will enhance its ability to accurately and efficiently bill for its

products and services Although Reorganized STFI cannot ensure that the transition to a new billing system will not have any adverse impact on its business, it believes a new billing system will be more effective and accurate in delivering the quality billing functions that it needs If Reorganized STFI is unable to develop, acquire and integrate its operations and financial systems, its customers could experience billing issues and/or lower levels of client service Reorganized STFI also cannot ensure that any of its systems will be successfully implemented on a timely basis or at all, that migrating will be transparent to its users or that its systems will perform as expected Reorganized STFI's failure to successfully implement these systems would have a material adverse effect on its business and prospects

5. **Reorganized STFI is dependent on many vendors and suppliers and their financial difficulties may adversely affect its business.** Reorganized STFI depends on many vendors and suppliers to conduct its business For example, Reorganized STFI purchases its customer premise equipment from equipment manufacturers and other suppliers Many of these third parties have experienced substantial financial difficulties in recent months, in some cases leading to bankruptcies and liquidations The financial difficulties of these companies could have a material adverse effect on Reorganized STFI's business and prospects

6. **Reorganized STFI's financial results could be adversely affected by the termination of its maintenance service contracts and the financial difficulties of its customers.** Reorganized STFI's ability to retain its customers is dependent on a number of factors, including, but not limited to, (a) its ability to provide quality service, customer care and accurate and timely billing, (b) its ability to offer competitive pricing, (c) its ability to timely meet the needs and demands of its customers, (d) its ability to properly incentivize its sales force to build strong customer relationships, (e) the economic viability of its customers, (f) the strength and recovery of the United States economy, (g) its ability to limit service disruptions as Reorganized STFI optimizes its organization and migrate its existing customers to a new billing platform and (h) an ability to overcome its customers' concerns regarding its bankruptcy and emergence as a stand alone company A large portion of its profit is dependant on long term contracts for the provision of maintenance services Reorganized STFI can make no assurances that its customer's will not terminate their maintenance service contracts. If its customers leave in significant numbers, this could have a material adverse effect on its business and prospects

Reorganized STFI provides services to small, medium and large-sized businesses Many of these businesses have experienced substantial financial difficulties in recent months, in some cases leading to bankruptcies and liquidations The financial difficulties of these companies could have a material adverse effect on Reorganized STFI's financial results if it is unable to collect revenues from these customers or if such customers reject the customer's contract with Reorganized STFI in their bankruptcies In addition, among other things, Reorganized STFI believes companies in financial difficulty are less likely to expand their operations and related demand for communications services

7. **Reorganized STFI may need to acquire new businesses in order to grow which in turn creates certain business risks** Reorganized STFI may seek to acquire other businesses that will contribute to the depth and versatility of its product and service offerings and the locations from which it can offer them However, there can be no assurance that Reorganized STFI will be able to identify suitable acquisition candidates or that, if identified, it will be able to acquire such businesses on acceptable terms Moreover, other companies are competing for acquisition candidates which could increase the price of acquisition targets and decrease the number of attractive businesses available for acquisition

There can be no assurance that the anticipated economic, operation and other benefits of any future acquisitions will be achieved or that Reorganized STFI will be able to successfully integrate acquired businesses in a timely manner without substantial costs, delays or other operational or financial problems The difficulties of such integration may initially be increased by the necessity of integrating personnel with disparate business backgrounds and cultures In addition, acquisitions may involve the expenditure of significant funds Failure to effectively integrate the acquired companies may adversely affect Reorganized STFI's ability to secure new business or retain its existing customers In addition, there can be no assurance that the acquired companies will operate profitably Acquisitions also involve a number of additional risks, including diversion of management attention, potential loss of key customers or personnel, risks associated with unanticipated problems, liabilities or contingencies, and risks of entering markets in which Reorganized STFI has limited or no direct expertise The occurrence of some or all of the events described in these risks would have a material adverse effect on Reorganized STFI's business, operating results, financial condition and stock price

8. Reorganized STFI's success will be dependant on strategic alliances that may not continue STFI has a series of agreements authorizing it to act as a distributor of communications equipment from a variety of manufacturers Periodically, these distribution agreements expire and new agreements must be negotiated There can be no assurance that any manufacturer with whom STFI does business will elect to continue its relationship with Reorganized STFI on substantially the same terms and conditions as contained in the parties' prior agreements The Debtors believe that an interruption, or substantial modification, of its distribution relationship with any of STFI's manufacturers could have a material adverse effect on its business, operating results and financial condition In addition, much of Reorganized STFI success will be derived from market acceptance of each manufacturer's products These products compete with those offered by several other communications equipment manufacturers Reduced market acceptance for the products Reorganized STFI distributes, as a result of competition or other factors, could adversely affect its business, operating results, financial condition and stock price

9. Reorganized STFI's inability to successfully compete in its market place may cause sales and profits to decline. The communications industry is intensely competitive and rapidly changing Reorganized STFI's primary competitors in this area include Nextira One, Norstan, and the Regional Bell Operating Companies Many of Reorganized STFI's competitors have longer operating histories, greater financial and human resources, and greater name recognition than Reorganized STFI

10. Varying results from quarter to quarter and seasonal swings in sales may cause volatility in *Reorganized STFI's stock price* *Variations in Reorganized STFI's revenues and operating results* occur from quarter to quarter as a result of a number of factors, including equipment sales and installations commenced and completed during a quarter, the number of business days in a quarter, the size and scope of assignments and general economic conditions Because a significant portion of Reorganized STFI's expenses will be relatively fixed, a variation in the number of product sales or the timing of the initiation or completion of system installations or consulting projects can cause significant fluctuations in operating results from quarter to quarter Furthermore, STFI has historically experienced a seasonable fluctuation in its operating results, with a larger proportion of its revenues and operating income occurring during the fourth quarter of the fiscal year Such fluctuations may contribute to the volatility of Reorganized STFI's stock price and the risk of loss assumed by investors in this offering

11. Projected Financial Information The financial projections included in this Disclosure Statement are dependent upon the successful implementation of the Business Plan and the validity of the other assumptions contained therein These projections reflect numerous assumptions, including confirmation and consummation of the Plan in accordance with its terms, the anticipated future performance of Reorganized STFI, industry performance, certain assumptions with respect to competitors of Reorganized STFI, general business and economic conditions and other matters, many of which are beyond the control of Reorganized STFI In addition, unanticipated events and circumstances occurring subsequent to the preparation of the projections may affect the actual financial results of Reorganized STFI Although the Debtors believe that the projections are reasonably attainable, variations between the actual financial results and those projected may occur and be material

12. Under certain circumstances, Reorganized STFI will need additional capital and such capital may not be available. Reorganized STFI may need additional capital to fund capital expenditures, working capital, debt service and cash flow deficits to operate its business and to deploy its services and systems In the event it has to repay amounts borrowed under its financing agreements earlier than expected or if its estimates of capital requirements and revenues are inaccurate, it may need to access alternative sources of capital, reduce or delay capital expenditures, sell assets, refinance or restructure its debt and/or modify its business plan, which may have a material adverse effect on it If Reorganized STFI cannot obtain alternative financing when needed, this would have a material adverse impact on its business.

13. Reorganized STFI may have future operating and net losses which will require additional financing. The STFI business has incurred net losses every year since it was acquired by the Debtors Reorganized STFI may continue to have significant net losses in its business until it establishes a sufficient revenue-generating customer base to cover its costs Reorganized STFI can make no assurances that it will achieve or sustain profitability or generate sufficient operating income to meet its working capital, capital expenditure and debt service requirements, and if it is unable to do so, this would have a material adverse effect on its business, financial condition and results of operations

14. The stock of Reorganized STFI may be publicly traded. The stock of Reorganized STFI may be publicly traded Currently, the stock of STFI is not publicly traded and no market may exist for such securities

15. Reorganized STFI may be subject to competition from new providers and services. Reorganized STFI may be face competition from entirely new products and services delivered by non-traditional competitors, such as Voice Over Internet Protocol (VOIP) providers Reorganized STFI may not be able to effectively develop competing products and services and such failure could have a material adverse effect on Reorganized STFI's business

D. <u>RISKS TO RECOVERY BY HOLDERS OF CLAIMS WITH RESPECT TO XO COMMON STOCK</u>

As of the close of the market on March 17, 2004, the price per share of XO Common Stock was \$5 33 Based on the total number of shares to be distributed to ATLT, the market value of such shares on March 17, 2004 was approximately \$241 9 million Between March 17, 2003 and March 17, 2004, the value of XO Common Stock has fluctuated materially over time, reaching a value as low as \$3 00 per share and as high as \$8 36 per share The volatility of XO Common Stock may or may not continue and may or may not have a value within the range realized within the preceding twelve-month period at anytime in the future, including any date or dates on which the XO Common Stock is distributed to Holders of Allowed Unsecured Claim or sold by ATLT.

1. XO's common stock trades less frequently than the common shares of many companies of similar size Collectively, creditors of the Allegiance Telecom, Inc will own through ATLT approximately 25% of the total outstanding pro forma shares of XO Communications, Inc The collective pro forma ownership of 25% of XO represents a material portion of XO's total outstanding common shares Carl Icahn and related affiliates hold the majority of XO's common stock, and these shares either do not trade or have historically traded in only very small amounts in the public market If a material portion of XO shareholders following the issuance of shares to ATLT elect to sell their shares, a sufficient number of buyers at a given price may not exist, and any such lack of liquidity could result in a material devaluation of XO common stock, which may or may not be temporary in nature

2. The failure of XO's operations support systems, including the systems for sales tracking, order entry and provisioning, and billing that XO is currently in the process of updating and replacing, to perform as XO's expects could impair XO's ability to retain customers and obtain new customers, or provision their services, or result in increased capital expenditures, which would adversely affect XO's revenues or capital resources XO's operations support systems are an important factor in XO's operations Critical information systems used in daily operations perform sales and order entry, provisioning, billing and accounts receivable functions, and cost of service verification and payment functions, particularly with respect to facilities leased from ILECs If any of these systems fail or do not perform as expected, such failures would impact XO's ability to process orders and provision sales, and to bill for services efficiently and accurately, which could, in turn, cause XO to suffer customer dissatisfaction, loss of business or the inability to add new customers or additional services to existing customers in a timely basis, any of which would adversely affect XO's revenues In addition, system failure or performance issues could impact XO's ability to effectively audit and dispute invoicing and provisioning data provided by service providers from whom XO lease facilities

XO believes that XO's Disaster Recovery framework to control and address systems risks is not fully redundant, and XO may incur the costs, delays and customer complaints associated with system failures In addition, XO's ability to efficiently and accurately provision new orders for services on a timely basis is necessary for XO to begin to generate revenue related to those services XO has experienced, and may continue to experience, delays and related problems in processing service orders, provisioning sales and billing in connection with the transition to these new systems If the delays or related problems continue, or if any unforeseen problems emerge in connection with XO's migration to the new provisioning software and systems, delays and errors may occur in the provisioning process, which could significantly increase the time until an order for new service can begin to generate revenue, which could have a material adverse effect on XO's operations

3. **XO's rights to the use of the unlit capacity that make up XO's network may be affected by the financial health of XO's fiber providers** XO possess the right to use the unlit capacity that is included in XO's network, particularly in XO's intercity network, through long-term leases or indefeasible right of use agreements A bankruptcy or financial collapse of one of these fiber providers could result in a loss of XO's rights under such leases and agreements with the provider, which in turn could have a negative impact on the integrity of XO's network, XO's ability to expand the capacity of XO's network as XO's business grows, and ultimately on XO's results of operations For example, XO leases or has indefeasible rights of use on networks owned and maintained by Level 3 Communications If Level 3 were to encounter financial difficulties, XO may not be able to maintain, or protect XO's rights in important components of XO's intercity network In such an event, there can be no assurance that XO will be able to lease comparable strands of unlit capacity if XO is not able to retain XO's rights to use the existing unlit capacity XO has obtained from Level 3, nor that XO will be able to lease such strands from another provider at competitive or economical rates

4. **XO may not be able to continue to connect XO's network to the incumbent carrier's network or maintain Internet peering arrangements on favorable terms, which would impair XO's growth and performance** XO is required to be a party to interconnection agreements with the incumbent carrier and certain independent carriers or ILECs in order to connect XO's customers to the public telephone network If XO is unable to renegotiate or maintain interconnection agreements in all of XO's markets on favorable terms, it could adversely affect XO's ability to provide services in the affected markets

Peering agreements with Internet service providers allow XO to access the Internet and exchange transit with these providers Depending on the relative size of the carriers involved, these exchanges may be made without settlement charge Recently, many Internet service providers that previously offered peering have reduced or eliminated peering relationships or are establishing new, more restrictive criteria for peering and an increasing number of these service providers are seeking to impose charges for transit Increases in costs associated with Internet and exchange transit could have a material adverse effect on XO's margins for XO products that require Internet access XO may not be able to renegotiate or maintain peering arrangements on favorable terms, which would impair XO's growth and performance

5. **If XO's selection of IP technology is incorrect, ineffective or unacceptably costly, implementation of XO's business strategy could be delayed, which would adversely affect XO's growth and operating results** XO relies on IP technology as the basis for XO's metro and intercity networks Integrating this technology into XO's network may prove difficult and may be subject to delays In addition, affordable IP customer premise equipment may not become available in a timely fashion, if at all If the technology choices XO makes prove to be incorrect, ineffective or unacceptably costly, XO's strategy of meeting XO's customer's demand for existing and future telecommunications services using IP technology could fail, which would adversely affect XO's growth and operating results

6. **XO may be unable to adequately protect XO's intellectual property or rights to licenses for use of third-party intellectual property, and may be subject to claims that XO infringes the intellectual property of others, which could substantially harm XO's business** XO relies on a combination of patents, copyrights, and other proprietary technology that XO licenses from third parties. XO has been issued several United States and foreign trademarks and may consider abandoning some trademarks and/or filing for additional trademarks in the future XO has also been issued one United States patent and may consider filing for additional patents in the future, however, XO cannot assure you that any additional patents or trademarks will issue or that XO's issued patent or trademarks will be upheld in all cases XO cannot guarantee that these and other intellectual property protection measures will be sufficient to prevent misappropriate of XO's trademark or technology or that XO's competitors or licensors will not independently develop technologies that are substantially equivalent to or superior to XO's In addition, the legal systems in many other countries do not protect intellectual property rights to the same extent as the legal system of the United States If XO is unable to adequately protect XO's proprietary interests and business information or XO's present license arrangements, XO's business, financial condition and results of operations could be materially adversely affected. Further, the dependence of the communications industry on proprietary technology has resulted in frequent litigation based on allegations of the infringement of patents and other intellectual property In the future, XO may be subject to litigation to defend against claimed infringement of the rights of others or to determine the scope and validity of the proprietary rights of others Future litigation also may be necessary to enforce and protect XO's trade secrets and other intellectual property rights Any intellectual

property litigation could be costly and cause diversion of XO's management's attention from the operation of XO's business Adverse determinations in any litigation could result in the loss of proprietary rights, subject XO to significant liabilities or require XO to seek licenses from third parties that may be available on commercially reasonable terms, if at all XO could also be subject to court orders preventing XO from providing certain services in connection with the delivery of XO's services to XO's customers

7 XO incurred a substantial net loss in 2003 and, in the near term, will not generate funds from operations sufficient to meet all of XO's cash requirements For each period since inception, XO has incurred substantial net losses For 2003, XO posted a net loss attributable to common stockholders of approximately $102 6 million In the near term, XO expects to use cash to fund XO's expected operating losses, and XO's ongoing capital expenditure requirements

8. As a result of XO's commitment to purchase substantially all of the assets of the Debtors, XO has committed to expend a majority of the cash reflected on XO's balance sheet as of December 31, 2003, and, as a result, XO may be required to seek additional capital to fund XO's operations As discussed above, XO has committed to purchase substantially all of the assets of Debtors for an aggregate purchase price that includes approximately $311 0 million in cash If the asset acquisition had been consummated immediately prior to the end of XO's most recently ended fiscal year, XO would have had approximately $209 6 million in cash, cash equivalents and marketable securities on XO's balance sheet as of December 31, 2003 XO believes that, upon the consummation of the asset acquisition, XO's remaining cash and cash equivalents as of that date will be significantly less than that figure based upon XO's need to fund XO's ongoing losses from operations If XO is required to use a significant amount of XO's remaining cash to repay some or all of XO's outstanding debt or to fund any unforeseen, necessary capital expenditures, XO may lack sufficient cash to continue to fund XO's losses from operations XO cannot assure you that XO will be able to obtain additional financing Even if XO could obtain additional financing, XO cannot assure you that it would be on terms that are favorable to XO If XO cannot obtain additional financing when needed, this would have a material adverse effect on XO

9. The covenants in XO's Credit Agreement restrict XO's financial and operational flexibility, which could have an adverse affect on XO's results of operations XO's Credit Agreement contains covenants that restrict, among other things, the amount of XO's capital expenditures, XO's ability to borrow money, grant additional liens on XO's assets, make particular types of investments or other restricted payments, sell assets or merge or consolidate A company controlled by Mr Carl Icahn holds more than 90% of the principal amount of the loans outstanding under XO's Credit Agreement Because amendments to or waivers of covenants under XO's Credit Agreement generally require the approval or consent of holders of only a majority of the outstanding principal amount under XO's Credit Agreement, decisions whether to amend or waive compliance with such covenants by the holders of loans under XO's Credit Agreement can be made by Mr Icahn, whether or not the other holders agree

The security for XO's Credit Agreement consists of substantially all of the assets of XO Communications, Inc and XO's subsidiaries A default under XO's Credit Agreement could adversely affect XO's rights under other commercial agreements

XO's Credit Agreement and the existence of the loans under XO's Credit Agreement also could affect XO's financial and operational flexibility, as follows

- they may impair XO's ability to obtain additional financing in the future,
- they may limit XO's flexibility in planning for or reacting to changes in market conditions, and
- they may cause XO to be more vulnerable in the event of a downturn in XO's business

10. XO may not successfully consummate the acquisition of the Acquired Assets XO's acquisition of substantially all of the assets of Debtors, although approved by the U S Bankruptcy Court, remains contingent upon fulfillment of a variety of covenants contained in the definitive documentation pursuant to which XO anticipates acquiring the Acquired Assets. Such contingencies include, without limitation, XO obtaining regulatory clearances, such as Hart-Scott-Rodino clearance and approval of the FCC and state public utility commissions There can be no assurance that XO will obtain the governmental approvals and clearances required to consummate XO's acquisition of the Acquired Assets If XO is not able to consummate the acquisition of the Acquired Assets, then XO will not be able to realize the improvements in XO's network infrastructure and resulting competitive advantages associated with XO's ownership of the Acquired Assets

11. XO may not realize the network and selling, operating, and administrative synergies that XO estimates in connection with the acquisition of the Acquired Assets While XO is confident that XO has correctly estimated the potential network and selling, operating, and administrative synergies that XO can realize in connection with the acquisition of the Acquired Assets, it is possible that XO's estimates could prove to be incorrect For example, XO may discover during the process of integrating the Acquired Assets into XO's network and business infrastructures that some of the Acquired Assets require greater maintenance or earlier replacement than originally anticipated In addition, unanticipated growth in XO's business as a result of the acquisition of the Acquired Assets may require that some facilities or support functions that XO currently anticipates will be combined or reduced may be necessary to retain for XO to maintain XO's operations The synergies that XO anticipates to realize are also dependent on XO's ability to combine the Acquired Assets with XO's own network infrastructure in a manner that permits XO to realize those synergies If XO has not estimated the potential synergies correctly, or if XO is not able to integrate the Acquired Assets into XO's network infrastructure effectively, XO may not realize any synergies in connection with the acquisition of the Acquired Assets, or such synergies may take longer to realize

12. Technological advances and regulatory changes are eroding traditional barriers between formerly distinct telecommunications markets, which could increase the competition XO faces and put downward pressure on prices, which could impair XO's results New technologies, such as voice-over-IP, and regulatory changes -- particularly those permitting incumbent local telephone companies to provide long distance services -- are blurring the distinctions between traditional and emerging telecommunications markets In addition, the increasing importance of data services has focused the attention of most telecommunications companies on this growing sector As a result, a competitor in any of XO's business areas is potentially a competitor in XO's other business areas, which could impair XO's prospects, put downward pressure on prices and adversely affect XO's operating results

XO faces competition in each of XO's markets principally from the incumbent carrier in that market, but also from recent and potential market entrants, including long distance carriers seeking to enter, reenter or expand entry into the local exchange marketplace and incumbent carriers seeking to enter into the long distance market as they are granted the regulatory authority to do so This competition places downward pressure on prices for local and long distance telephone service and data services, which can adversely affect XO's operating results In addition, XO could face competition from other companies, such as other competitive carriers, cable television companies, microwave carriers, wireless telephone system operators and private networks built by large end-users XO is much smaller in size and resources than many of XO's competitors If XO is not able to compete effectively with these industry participants, XO's operating results could be adversely affected

13. XO's company and industry are highly regulated, which restricts XO's ability to compete in XO's target markets and imposes substantial compliance costs on XO that adversely impact XO's results XO is subject to varying degrees of regulation from federal, state and local authorities This regulation imposes substantial compliance costs on XO It also restricts XO's ability to compete For example, in each state in which XO desires to offer XO's services, XO is required to obtain authorization from the appropriate state commission If any required authorization for any of XO's markets or services is revoked or otherwise terminated, XO's ability to operate in the affected markets would be adversely affected

14. Attempts to limit the basic competitive framework of the Telecom Act could interfere with the successful implementation of XO's business plan Successful implementation of XO's business plan is predicated on the assumption that the basic framework for competition in the local exchange services market established by the Telecom Act will remain in place XO expects that there will be attempts to limit or eliminate this basic framework through a combination of federal legislation, new rulemaking by the FCC and challenges to existing and proposed regulations by the RBOCs It is not possible to predict the nature of any such action or its impact on XO's business and operations

15. An entity owned and controlled by Mr. Carl C. Icahn is XO's majority stockholder An entity owned and controlled by Mr Carl C Icahn, Chairman of XO's board of directors, has filed Form 13D with the Securities and Exchange Commission indicating that it owns over 60% of XO's outstanding Common Stock as of January 31, 2004 As a result, Mr Icahn has the power to elect all of XO's directors Under applicable law and XO's certificate of incorporation and by-laws, certain actions cannot be taken without the approval of holders of a majority of XO's voting stock including, without limitation, mergers and the sale of substantially all of XO's assets and amendments to XO's certificate of incorporation and by-laws XO anticipates that Mr. Icahn will continue to control a majority of XO's outstanding capital stock following the issuance of XO Communications, Inc shares in connection with XO's acquisition of the Acquired Assets and consequently will continue to have these governance rights

16. Future sales of XO's Common Stock could adversely affect its price and/or XO's ability to raise capital *Future sales of substantial amounts of XO Common Stock, or the perception that such sales could occur,* could adversely affect the prevailing market price of the XO Common Stock and XO's ability to raise capital

As of February 20, 2004, there were 136,510,535 shares of XO Common Stock outstanding The shares of XO Common Stock owned by an entity owned and controlled by Mr Icahn, are restricted shares that may be sold only under a registration statement or an exemption from federal securities registration requirements Mr Icahn, through various entities that he owns or controls, has the right to require XO to register, under the Securities Act of 1933, shares of XO Common Stock held by such entities and to include shares of XO Common Stock held by them in certain registration statements filed by XO, pursuant to a Registration Rights Agreement approved by the Bankruptcy Court in connection with XO's Chapter 11 proceedings

Pursuant to XO's Plan of Reorganization, XO has issued three series of warrants to purchase up to an aggregate of approximately 9 5 million, 7 1 million and 7 1 million additional shares of XO Common Stock, at exercise prices of $6 25, $7 50 and $10 00 per share, respectively The warrants will expire on January 16, 2010

XO has options outstanding to purchase approximately 9 5 million shares of XO Common Stock outstanding under XO's 2002 Stock Incentive Plan as of February 20, 2004 Unless surrendered or cancelled earlier under the terms of the stock incentive plan, those options will expire beginning in 2013 In addition, XO's stock incentive plan authorizes future grants of options to purchase XO Common Stock, or awards of restricted XO Common Stock, with respect to an additional 6 3 *million shares of XO Common Stock in the aggregate*

17. There may be risks related to XO's use of Arthur Andersen as XO's independent auditors for the year ended December 31, 2001 and prior periods Arthur Andersen, LLP, XO's former independent public accountants, which audited XO's financial statements for the year ended December 31, 2001, was found guilty on June 15, 2002 of federal obstruction of justice charges in connection with the federal government's investigation of Enron Corp Arthur Andersen ceased practicing before the SEC effective August 31, 2002 Based on XO's understanding of Arthur Andersen's financial condition, it may be unable to satisfy any claims that arise out of its provision of auditing and other services to XO, including claims that may arise out of Arthur Andersen's audits of XO's consolidated financial statements in years prior to 2002 The SEC has said that it will continue to accept financial statements audited or reviewed by Arthur Andersen in compliance with applicable rules and orders issued by the SEC in March 2002 in connection therewith

X. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following is a summary of certain United States federal income tax consequences of the Plan to the Holders of Allowed Senior Lender Claims and Unsecured Claims and to the Debtors The description of tax consequences below is for informational purposes only and, due to a lack of definitive judicial and administrative authority in a number of areas, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. Only the principal consequences of the Plan for the Debtors and for Holders of Allowed Senior Lender Claims and Unsecured Claims who are entitled to vote to accept or reject the Plan are described below No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan No rulings or determinations of the Internal Revenue Service (the "IRS") or any other tax authorities have been or will be sought or obtained with respect any tax consequences of the Plan The Debtors are not making any representations regarding the particular tax consequences of the confirmation and consummation of the Plan as to any Holder and are not rendering any form of legal opinions as to such tax consequences No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein

The discussion of the United States federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), Treasury Regulations promulgated thereunder, judicial decisions and published administrative rulings and pronouncements of the IRS as in effect on the date hereof Legislative, judicial or administrative changes or interpretations enacted or promulgated after the date hereof could alter or modify the analyses set forth below with respect to the United States federal income tax consequences of the Plan Any such change or interpretation may be retroactive and could significantly affect the United States federal income tax consequences discussed below

This informational summary does not apply to Holders of Allowed Senior Lender Claims or Unsecured Claims that are not United States persons (as defined in the Internal Revenue Code) or that are otherwise subject to special treatment under U S federal income tax law (including, for example, banks, governmental authorities or agencies, financial institutions, insurance companies, pass-through entities, tax-exempt organizations, brokers and dealers in securities, mutual funds, small business investment companies, and regulated investment companies) Moreover, this summary does not purport to cover all aspects of United States federal taxation that may apply to Holders of Allowed Senior Lender Claims or Unsecured Claims based upon their particular circumstances Additionally, this summary does not discuss any tax consequences that may arise under state, local, or foreign tax law

THE FOLLOWING SUMMARY IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED ON THE PARTICULAR CIRCUMSTANCES OF EACH HOLDER OF ALLOWED SENIOR LENDER CLAIMS OR UNSECURED CLAIMS. ALL HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL INCOME TAX CONSEQUENCES, AS WELL AS ANY APPLICABLE STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES, OF THE PLAN.

A. <u>CONSEQUENCES TO DEBTORS</u>

1. Sale of Assets and Transfers to ATLT

The sale of the Acquired Assets to XO and the transfers of the ATLT Assets to ATLT may result in the recognition of taxable gain or loss by the Debtors Nevertheless, due to available net operating losses ("NOLs") and other loss carryforwards, the Debtors do not anticipate that a significant federal income tax liability, if any, will be incurred as a result of such transactions To the extent that any federal income tax liability results from such transactions, the Debtors will pay the resulting tax to the IRS The Debtors will not be required to include in income any cancellation of indebtedness income ("CODI") from the discharge of Claims because the Internal Revenue Code provides an exclusion for CODI that arises in a title 11 proceeding In connection with this exclusion, a debtor normally must reduce its tax attributes by the amount of CODI that it excluded from gross income (after calculating the taxable income of the debtor for the taxable year in which such discharge occurs) However, the Plan provides that the ATI and ATCW will be liquidated and dissolved and, accordingly, such attribute reduction will not be applicable

The Sale Transaction, followed by the transfer of XO Common Stock and Cash to ATLT, may constitute a reorganization described in section 368(a)(1)(G) of the Internal Revenue Code (a "G Reorganization"), provided certain requirements are satisfied These requirements include the parties' having a valid business purpose for the transaction, the debtor corporation's transfer of substantially all its assets to another corporation in exchange for consideration that includes stock in the acquiring corporation, the debtor corporation's distribution of such stock to holders of its stock or securities, and the transaction's preservation of sufficient continuity of proprietary interest In order for continuity to be preserved, a sufficient percentage of the value of the distribution must consist of stock in the acquiring corporation For advance ruling purposes, the IRS requires that such stock comprise at least 50% of the total consideration to be received by the most senior class of creditors receiving stock (and all equal and junior classes and, if applicable, shareholders) Under applicable case law, however, lower percentages have been held sufficient

If the Debtors' transfer and distribution constitute a G Reorganization, the Debtors would recognize no gain or loss with respect to such transactions, and their taxable year would end on the Initial Effective Date (with a new taxable year beginning the day after the Initial Effective Date) Moreover, all of the tax attributes relating to the transferred assets, including adjusted basis therein and (with respect to any Debtors that are transferred) net operating loss carryovers, would be transferred to XO as of the close of the Initial Effective Date Recently issued regulations, however, would require the reduction of the transferred tax attributes to the extent of certain excluded cancellation of debt income, and only the amount of tax attributes remaining after such reduction would be transferred to XO

2. Tax Consequences to STFI

STFI should not recognize any CODI under the Plan and therefore will not be required to reduce its tax attributes However, STFI's ability to use NOLs and certain built-in losses after the Initial Effective Date will be limited as a result of the Distribution of New STFI Common Stock to Holders of Allowed Claims If a corporation undergoes an "ownership change," then Section 382 of the Internal Revenue Code generally limits the corporation's use of its NOLs that exist at the time of such ownership change (and may limit a corporation's use of certain built-in losses existing at the time of the ownership change if such built-in losses are recognized within a five-year period following the ownership change) (the "Section 382 Limitation") The Section 382 Limitation on the use of pre-change losses (NOLs and certain built-in losses recognized within the five year post-ownership change period) in any "post change year" generally is equal to the product of the fair market value of the loss corporation's outstanding stock immediately before the ownership change and the long-term tax-exempt rate in effect for the month in which the ownership change occurs (which is published monthly by the Treasury Department and is 4 40% for March 2004) Code Section 382(1)(6) provides, however, that in the case of an ownership change resulting from a bankruptcy proceeding of a debtor, the value of the debtor's stock for the purpose of computing the Section 382 Limitation generally will be calculated by reference to the net equity value of the debtor's stock immediately after the ownership change

In general, an ownership change occurs when the percentage of the corporation's stock owned by certain "5 percent shareholders" increases by more than 50 percentage points over the lowest percentage owned by such holders at any time during the applicable "testing period" (generally, the shorter of (a) the three-year period preceding the testing date and (b) the period between the most recent ownership change of the corporation and the testing date) A "5 percent shareholder" for these purposes includes, generally, an individual or entity that directly or indirectly owns 5 percent or more of a corporation's stock during the relevant period, and may include one or more groups of shareholders each of which owns less than 5 percent of the value of the corporation's stock Under these rules, the issuance of New STFI Common Stock to Holders of Allowed Claims will cause STFI to undergo an ownership change, and, consequently, Section 382 will limit STFI's use of any pre-change losses

B. TAX TREATMENT OF POST-CONFIRMATION ESTATE

1. Classification of ATLT

Pursuant to the Plan, the Debtors will transfer the ATLT Assets to ATLT, and ATLT will become obligated to make Distributions in accordance with the Plan The Plan provides, and this discussion assumes, that ATLT will be treated for federal income tax purposes as a "liquidating trust," as defined in Treasury Regulation Section 301 7701-4(d) or as another entity that is treated as a pass-through entity for federal income tax purposes Accordingly, no federal income tax should be imposed on ATLT itself on the income or gain recognized by ATLT Instead, the beneficiaries of the liquidating trust or owners of such entity, as the case may be, will be taxed on their allocable shares of such net income or gain in each taxable year, whether or not they receive any Distributions from ATLT in such taxable year

No ruling has been or will be requested from the IRS concerning the tax status of ATLT and there can be no assurance that the IRS will not require an alternative characterization of ATLT If the IRS were successful in arguing that ATLT should be treated as other than a liquidating trust or other pass-through entity, then the taxation of ATLT and the transfer of assets by the Debtors to ATLT could be materially different from that described herein and could have a material adverse effect on the Holders of Allowed Claims

2. Tax Reporting

The Plan Administrator will file tax returns with the IRS for ATLT as a grantor trust in accordance with Treasury Regulation Section 1 671-4 The Plan Administrator also will send to each Beneficiary of ATLT a separate statement setting forth the Beneficiary's allocable share of items of income, gain, loss, deduction or credit and will instruct the Beneficiary to report such items on such Beneficiary's federal income tax return

3. Reserve for Disputed Claims

The Plan Administrator must establish a reserve on account of any distributable amounts required to be set aside on account of Disputed Claims Such amounts, net of certain expenses, shall be distributed as such Disputed Claims are resolved in the manner that such amounts would have been distributed had the Disputed Claims been Allowed Claims as of the Initial Effective Date, together with any net earnings related thereto ATLT will pay taxes on the taxable net income or gain allocable to Holders of Disputed Claims on behalf of such Holders and, when such Disputed Claims are ultimately resolved, Holders whose Disputed Claims are determined to be Allowed Claims will receive Distributions from ATLT net of the taxes that ATLT had paid previously on their behalf

C. CONSEQUENCE TO HOLDERS OF ALLOWED CLAIMS

1. Recognition of Gain or Loss

The transfer of the ATLT Assets to ATLT by the Debtors should be treated for federal income tax purposes as a transfer of such assets to the Holders of Allowed Claims to the extent they are Beneficiaries of ATLT, followed by a deemed transfer of such assets by such Holders to ATLT As a result of such treatment, such Holders of Allowed Claims will have to take into account their pro rata share of the ATLT Assets transferred on their behalf to ATLT in determining the amount of gain or loss recognized upon consummation of the Plan In addition, because a Holder's share of the assets held by ATLT may change depending upon the resolution of the Disputed Claims, the Holder may be prevented from recognizing any loss in connection with consummation of the Plan until the time that all such Disputed Claims have been resolved The Plan Administrator will provide the Holders of Allowed Claims with valuations of the assets transferred to ATLT on behalf of and for the benefit of such Holders, as required by the Plan and the ATLT Agreement, and such valuations should be used consistently by ATLT and such Holders for all federal income tax purposes

Subject to the discussion below under "Tax-Free Treatment," a Holder of an Allowed Claim generally will recognize gain or loss equal to the difference between the "amount realized" by such Holder and such Holder's adjusted tax basis in the Allowed Claim The "amount realized" by a Holder is equal to the sum of the Cash and the fair market value of any property received under the Plan in respect of a Holder's Allowed Claim (including the Holder's proportionate share of the ATLT Assets transferred to ATLT on behalf of and for the benefit of the Holder), to the extent that such Cash or property is not allocable to any portion of the Allowed Claim representing accrued but unpaid interest (see discussion below)

HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE RECOGNITION OF GAIN OR LOSS, FOR FEDERAL INCOME TAX PURPOSES, ON THE SATISFACTION OF THEIR ALLOWED CLAIMS

2. Distributions in Discharge of Accrued but Unpaid Interest

Pursuant to the Plan, Distributions received with respect to Allowed Claims will be allocated first to the principal amount of such Allowed Claims, with any excess allocated to accrued but unpaid interest However, there is no assurance that the IRS will respect such allocation for federal income tax purposes Holders of Allowed Claims not previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be treated as receiving taxable interest, to the extent any consideration they receive under the Plan is allocable to such accrued but unpaid interest Holders previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be entitled to recognize a deductible loss, to the extent that such accrued but unpaid interest is not satisfied under the Plan HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE ALLOCATION OF CONSIDERATION RECEIVED IN SATISFACTION OF THEIR CLAIMS AND THE FEDERAL INCOME TAX TREATMENT OF ACCRUED BUT UNPAID INTEREST

3. Character of Gain or Loss; Tax Basis; Holding Period

The character of any gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss recognized by a Holder of Allowed Claims under the Plan will be determined by a number of factors, including, but not limited to, the status of the Holder, the nature of the Allowed Claim in such Holder's hands, the purpose and circumstances of its acquisition, the Holder's holding period in the Allowed Claim, whether the Allowed Claim was acquired at a market discount and the extent to which the Holder previously claimed a deduction for the worthlessness of all or a portion of the Allowed Claim The Holder's aggregate tax basis for any XO Common Stock received under the Plan generally will equal its fair market value The holding period for any XO Common Stock received under the Plan generally will begin on the day following its receipt

4. Tax-Free Treatment

As discussed above, the Sale Transaction and transfer of Assets to ATLT may qualify for treatment as a G Reorganization In this case, the U S federal income tax treatment to Holders of Allowed Claims would depend on whether or to what extent such Claims constitute "securities" for such purposes The term "security" is not defined in the Internal Revenue Code or Treasury Regulations promulgated thereunder and has not been clearly defined by judicial decision The determination of whether an instrument constitutes a "Security" is determined based on all the facts and circumstances but most authorities have held that the length of the term of a debt instrument is an important factor in determining whether such instrument is a security for federal income tax purposes These authorities have indicated that a term of five years or less is evidence that the instrument is not a security, whereas a term of ten years or more is evidence that it is a security In addition to maturity, other factors taken into account are the nature of the debt, the degree of participation and continuing interest in the business represented by the debt, the extent of proprietary interest compared with the similarity of the debt to a cash payment, and the purpose of the advance

In the event that the Sale Transaction and the transfer of consideration to ATLT qualify as a G Reorganization, then each Holder of an Allowed Claim that is a security generally (i) will not recognize loss upon the exchange of such Allowed Claim, but (ii) will recognize gain (as computed above under "Recognition of Gain or Loss"), if any, only to the extent of consideration received other than XO Common Stock (other than in respect of any accrued but unpaid interest) In general, the Holder's aggregate tax basis in any XO Common Stock received in satisfaction of its Allowed Claim will equal the Holder's aggregate tax basis in such Allowed Claim, increased by the amount of any gain recognized and decreased by any consideration received (other than XO Common Stock) that is not allocable to accrued but unpaid interest In general, the Holder's holding period for XO Common Stock will include the Holder's holding period for the Allowed Claim exchanged therefore, except to the extent that the XO Common Stock was issued in respect of an Allowed Claim for accrued but unpaid interest To the extent that an Allowed Claim that had been acquired with market discount is exchanged in a G Reorganization, any market discount that accrued on the Allowed Claim but was not recognized by the Holder is carried over to the property received therefore and any gain recognized on the subsequent sale or other taxable disposition of such property is treated as ordinary income to the extent of the accrued but unrecognized market discount with respect to the exchanged Allowed Claim

D. WITHHOLDING

All Distributions to Holders of Allowed Claims under the Plan are subject to any applicable withholding, including employment tax withholding The Debtors and/or ATLT will withhold appropriate employment taxes with respect to payments made to a Holder of an Allowed Claim that constitutes a payment for compensation Any payments made to a Holder of an Allowed Claim may be subject to backup withholding tax, currently at a rate of 28%, if the Holder (a) fails to furnish the correct social security number or other taxpayer identification number ("TIN") of the Holder, (b) furnishes an incorrect TIN, (c) has failed to report properly interest or dividends to the IRS in the past, or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is the correct number and that the Holder is not subject to backup withholding tax Backup withholding tax is not an additional tax but merely an advance payment, which may be refunded to the extent that it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

AS INDICATED ABOVE, THE FOREGOING IS INTENDED TO BE A SUMMARY ONLY AND NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN ACCORDINGLY, EACH HOLDER OF A CLAIM IS URGED TO CONSULT SUCH HOLDER'S TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN

XI. SECURITIES LAWS MATTERS

THE FOLLOWING SUMMARY DISCUSSION IS GENERAL IN NATURE AND HAS BEEN INCLUDED IN THIS DISCLOSURE STATEMENT SOLELY FOR INFORMATIONAL PURPOSES THE DEBTORS DO NOT MAKE ANY REPRESENTATIONS CONCERNING, AND DO NOT PROVIDE ANY OPINION OR ADVICE WITH RESPECT TO, THE SECURITIES LAW AND BANKRUPTCY LAW MATTERS DESCRIBED BELOW THE DEBTORS ENCOURAGE EACH PERSON WHO IS TO RECEIVE ATLT A CERTIFICATES, ATLT B CERTIFICATES, OR ATLT C CERTIFICATES PURSUANT TO THE PLAN TO CONSIDER CAREFULLY AND CONSULT WITH HIS, HER OR ITS OWN LEGAL ADVISOR(S) WITH RESPECT TO SUCH (AND ANY RELATED) MATTERS, IN VIEW OF THE UNCERTAINTY CONCERNING THE AVAILABILITY OF EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND EQUIVALENT STATE SECURITIES AND "BLUE SKY" LAWS TO A RECIPIENT OF ATLT A CERTIFICATES, ATLT B CERTIFICATES, OR ATLT C CERTIFICATES WHO MAY BE DEEMED TO BE AN "UNDERWRITER" (WITHIN THE MEANING OF BANKRUPTCY CODE SECTION 1145(B)(1)) AND/OR AN "AFFILIATE" OF, OR A PERSON WHO EXERCISES "CONTROL" OVER, ANY OF THE DEBTORS UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS

The initial issuance and the resale of ATLT A Certificates, ATLT B Certificates, and ATLT C Certificates raise certain securities law issues under the Bankruptcy Code and federal and state securities laws that are discussed in this section The information in this section should not be considered applicable to all situations or to all holders of Claims receiving ATLT A Certificates, ATLT B Certificates, and ATLT C Certificates Holders of Claims should consult their own legal counsel concerning the facts and circumstances relating to the transfer of these securities

Certain Holders of Claims will receive (i) ATLT A Certificates, (ii) ATLT B Certificates, and (iii) ATLT C Certificates under the Plan Section 1145 of the Bankruptcy Code creates some exemptions from the registration and other requirements of certain federal and state securities laws with respect to the distribution of securities pursuant to a plan of reorganization The Debtors have not obtained, and do not intend to obtain, a "no-action" letter from the Securities and Exchange Commission to the effect that the Securities and Exchange Commission will not take enforcement action if (i) ATLT A Certificates, (ii) ATLT B Certificates, and (iii) ATLT C Certificates are issued in accordance with the provisions of the Plan without registration under the Securities Act

A. <u>Issuance of ATLT A Certificates, ATLT B Certificates, and ATLT C Certificates under the Plan</u>

Section 1145(a)(1) of the Bankruptcy Code exempts the issuance of securities under a plan of reorganization from registration under the Securities Act and under state securities laws if three principal requirements are satisfied (i) the securities must be issued "under a plan" of reorganization by the debtor or its successor under a plan or by an affiliate participating in a joint plan of reorganization with the debtor, (ii) the recipients of the securities must hold a prepetition or administrative expense claim against the debtor or an interest in the debtor or such affiliate, and (iii) the securities must be issued entirely in exchange for the recipient's claim against or interest in the debtor, or "principally" in such exchange and "partly" for cash or property

B. Transfers of ATLT A Certificates, ATLT B Certificates, and ATLT C Certificates

In general, all resales and subsequent transactions involving (i) ATLT A Certificates, (ii) ATLT B Certificates, and (iii) ATLT C Certificates issued under the Plan will be exempt from registration under the Securities Act pursuant to Section 1145 of the Bankruptcy Code, and the resale by the recipient thereof will be exempt from registration under the Securities Act, unless the holder is an "underwriter" with respect such securities Section 1145(b)(1) of the Bankruptcy Code defines four types of "underwriters"

- persons who purchase a claim against, an interest in, or a claim for administrative expense against the debtor with a view to distributing any security received or to be received in exchange for such a claim or interest,

- persons who offer to sell securities offered or sold under a plan for the holders of such securities,

- persons who offer to buy securities offered or sold under a plan from the holders of the securities, if the offer to buy is (a) with a view to distributing such securities and (b) made under an agreement in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan, and

- a person who is an "issuer" with respect to the securities, as the term "issuer" is defined in section 2(11) of the Securities Act

Under section 2(11) of the Securities Act, an "issuer" includes any "affiliate" of the issuer, which means any person directly or indirectly controlling, or controlled by, the issuer, or any person under direct or indirect common control with the issuer To the extent that persons deemed to be "underwriters" receive securities pursuant to the Plan, resales by such persons would not be exempt under section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable state laws Persons deemed to be "underwriters," however, may be able to sell such securities without registration if they are able to comply with the provisions of Rule 144 under the Securities Act This rule permits the public sale of securities received by such person if current information regarding the issuer is publicly available and if volume limitations and certain other conditions are met Any person who is an "underwriter" but not an "issuer" with respect to an issue of securities is, however, entitled to engage in exempt "ordinary trading transactions" within the meaning of section 1145(b) of the Bankruptcy Code.

Whether any particular person would be deemed an "underwriter" with respect to any security to be issued pursuant to the Plan would depend upon various facts and circumstances applicable to that person Accordingly, the Debtors express no view as to whether any person would be an "underwriter" with respect to any security to be issued pursuant to the Plan

GIVEN THE COMPLEX NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON OR ENTITY MAY BE AN UNDERWRITER OR AN AFFILIATE WITH RESPECT TO THE ATLT A CERTIFICATES, ATLT B CERTIFICATES, AND ATLT C CERTIFICATES, THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN THE SECURITIES TO BE ISSUED PURSUANT TO THE PLAN THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF ATLT A CERTIFICATES, ATLT B CERTIFICATES, AND ATLT C CERTIFICATES CONSULT THEIR OWN COUNSEL CONCERNING THE FEDERAL AND STATE SECURITIES LAWS CONSEQUENCES CONCERNING THE TRANSFERABILITY OF ATLT A CERTIFICATES, ATLT B CERTIFICATES, AND ATLT C CERTIFICATES

XII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtors' alternatives include (i) liquidation of the Debtors under chapter 7 of the Bankruptcy Code and (ii) the preparation and presentation of an alternative plan or plans of reorganization

A. LIQUIDATION UNDER CHAPTER 7

If no chapter 11 plan can be confirmed, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors A discussion of the effect that a chapter 7 liquidation would have on the recoveries of Holders of Claims and Equity Interests is set forth herein The Debtors believe that liquidation under chapter 7 would result in, among other things, (i) smaller distributions being made to creditors and equity interest Holders than those provided for in the Plan because of additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, (ii) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations and (iii) the failure to realize the greater, going concern value of the Debtors' assets

B. ALTERNATIVE PLAN OF REORGANIZATION

If the Plan is not confirmed, the Debtors or any other party in interest could attempt to formulate a different plan of reorganization Such a plan might involve either a reorganization and continuation of the Debtors' business or an orderly liquidation of the Debtors' assets The Debtors have concluded that the Plan represents the best alternative to protect the interests of creditors, equity interest Holders and other parties in interest

The Debtors believe that the Plan enables the Debtors to successfully and expeditiously emerge from chapter 11, preserves their business and allows creditors to realize the highest recoveries under the circumstances In a liquidation under chapter 11 of the Bankruptcy Code, the assets of the Debtors would be sold in an orderly fashion which could occur over a more extended period of time than in a liquidation under chapter 7 and a trustee need not be appointed Accordingly, creditors would receive greater recoveries than in a chapter 7 liquidation Although a chapter 11 liquidation is preferable to a chapter 7 liquidation, the Debtors believe that a liquidation under chapter 11 is a much less attractive alternative to creditors and equity interest Holders because a greater return to creditors and equity interest Holders is provided for in the Plan

XIII. CONCLUSION AND RECOMMENDATION

The Debtors believe that confirmation and implementation of the Plan is preferable to any of the alternatives described above because it will provide the greatest recoveries to Holders of Allowed Claims and Equity Interests Other alternatives would involve significant delay, uncertainty and substantial additional administrative costs The Debtors urge Holders of Impaired Claims entitled to vote on the Plan to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than __ 00 __ m , prevailing Eastern Time, on ________________ ____, 2004

Allegiance Telecom, Inc
(for itself and on behalf of each of the Debtors)

By /s/ Mark B Tresnowski
Name Mark B Tresnowski
Title Executive Vice President,
General Counsel and Secretary